PRESS RELEASE

SEVEN Investment Management

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7IMs YEAR AHEAD: AMERICA'S POLITICAL SHIP ISN'T LIKELY TO CAPSIZE, BUT NOR DOES IT HAVE A CAPTAIN

- **Another year of double digit stockmarket growth perfectly possible, as 7IM trims gold exposure**
- **Eurozone and US stock markets expected to outpace UK's for second year on trot**

Global growth is "humming" and the world has finally recovered its belief says **Seven Investment Management (7IM),** publishing its annual "Year Ahead" forecast.

7IM has been laying its hands on crystal balls and its neck on the line to share 12-month forecasts each January since the financial crisis in 2008 and its managers are currently cautiously optimistic.

Ben Kumar, Investment Manager, Seven Investment Management (7IM) said: "Global growth is humming along, and we are finally getting a taste of the vital ingredient that has been missing since the financial crisis – belief."

Gold exposure reduced

In keeping with **7IM's** cautious optimism, gold exposure has been trimmed. Although **7IM** still believes that tail risks exist and wants to provide some protection to portfolios, the rising interest rate environment means that gold is slightly less likely to offer that protection versus other investments. For example, **7IM** has trimmed its gold position from 5% to 4% in the **7IM Balanced Fund**.

The proceeds from trimming gold have been used to buy Put options for the Euro Stoxx 50. These allow **7IM** the option to sell European equity assets (**7IM's** biggest overweight) at an agreed price on or before a particular date, providing cheap protection against short-term negative moves.

Trump – expect a lot of noise, a lot of golf, and very little action

Whilst positive on the US economic growth story, with Donald Trump's first anniversary as President coming up on 20 January, and in a year when mid-term Congressional elections are held, political turmoil is expected to continue.

Ben Kumar, Investment Manager, Seven Investment Management (7IM) said: "America's political ship isn't likely to capsize, but nor does it have a captain. Donald Trump's second year in office is likely to be similar to his first, with a lot of noise, a lot of golf, and very little action. Don't be fooled by the tax bill being passed, the US government remains almost paralysed due to splits in the Republican Party. It wouldn't take many Democrat victories in the mid term elections to further split the House and the Senate. Fortunately, US businesses are used to political gridlock and will continue as usual."

The big concern for **7IM** is achieving a healthy balance between wage growth and inflation. **Kumar** said: "We need to see some income growth to keep consumer confidence high, but there is a danger that too much too soon could see central banks panic about inflation, and begin hiking interest rates rapidly."

Though many fear markets may come crashing to earth in 2018, **Ben Kumar** points out: "2017 was the year when everyone expected a negative market surprise, and didn't get one. Having a good year in markets does not mean the next year will be a bad one. In general, global expansion is good for stocks. It could well be that at the end of 2018 we are reviewing another double digit year for equities."

US – still growing strongly

The US has led the world out of recession and is expected to maintain its advantage. More traditional, cyclical sectors like basic materials and financials are expected to take over from the tech firms that drove the 2017 rally, but now find themselves in conflict with regulators and governments around the world. That could mean slightly less stellar returns for the tech-stock dominated NASDAQ, relative to the S&P 500 or the mid-cap Russell 2000.

Europe

Eurozone GDP growth is tipped to continue to gather momentum alongside the US, and stock markets should continue to outperform, with markets not yet fully reflecting consumer confidence, falling unemployment and business investment plans.

Kumar said: "US growth has already been priced into markets. The benign global growth environment should see investors find the relative cheapness of European companies comparatively attractive. Indeed, if the global technology sector does find itself challenged over the next few months, European indices could benefit from having almost zero exposure."

UK – growth lagging behind that of mainland Europe

Wrangling over Brexit terms will act as a drag on UK growth, which will be lucky if it hits 2%. 2018 will be the first time since before the financial crisis that Europe has grown faster than the UK for two consecutive years, but UK companies continue to make profits. Consumer sentiment may be given a lift from falling inflation and rising wages, helping domestically exposed businesses to expand.

Japan – benefiting from the global recovery

In Japan, the Yen has been weakening, energy prices have picked up, and there are signs of wage increases finally coming through – as there should be, given unemployment is at lowest levels since the 1989 bubble burst. Inflation will grind upward but it should be a good year for Japan, says **Kumar**:

"Japan is often said to be the last boat that floats in a global growth cycle. With domestic consumer confidence heading back towards all-time highs too, the Japanese economy looks well placed to keep expanding this year. Towards the end of the year, we may see a further boost as purchases are made ahead of the consumption tax increase in 2019."

7IM is not discounting the possibility of the Bank of Japan (BoJ) springing a surprise by reducing bond purchases. **Kumar** said: "The BoJ has pumped more money into Japan's economy – relative to GDP – than any other central bank in the world. It is running out of bonds to buy, so the obvious solution is to stop buying! Waiting for Japanese Government Bond yields to go up has become known as the 'widow-maker' over the last two decades, but with yields at extreme lows markets will find it hard to bet against this outcome."

China – manages growth transition smoothly

Some forecasters have been waiting for China to have a "hard-landing" for a decade; by which they mean a big miss of the annual GDP growth target. **Kumar** says: "At the National Party Congress at the end of 2017 Chinese officials changed tack. They removed the target – instead prioritising the well-being of citizens and environmental issues. So, for the first time, China can publish a GDP figure around 6% and still claim to be meeting its aim. We still don't expect to see much of a slowdown."

Indian – spectacular growth possible

Kumar says: "The shocks to the economic system of demonetisation and the Goods and Sales Tax should work through by the end of 2018. This could lead to fairly spectacular growth figures in India. On the political side, Prime Minister Modi is still immensely popular, and his opposition has no credible leader. The next General Election is in 2019, so rather than structural reform, the coming twelve months are likely to see more fiscal giveaways, particularly in the agricultural sector."

South Korea to surge

Global growth has always supercharged the South Korean economy, and this time should be no different, with demand for heavy machinery, petrochemicals and semiconductors set to increase. In addition, the government is also implementing a domestic spending plan, pushing consumer confidence to post-crisis highs. Of course, the risk of a confrontation with the northern neighbours is always there, but mere threat alone hasn't stopped the South Korean economy over the past 30 years, so is unlikely to do so now.

Ends

For further information, please contact:

Jemma Jackson
PR Manager, 7IM
jemma.jackson@7im.co.uk
020 3823 8696
07776 204 610

Notes to Editors:

<u>About 7IM</u>

It all began in 2002, with seven of us in a basement establishing Seven Investment Management (7IM) because we couldn't find anywhere we wanted to invest our families' money. Our assets under management now stand at around £12bn (more than doubling since 2013), and we have moved from 'basement' to 'Bishopsgate' in the City of London. There are now around 240 of us.

Radical common sense

We manage money aiming to meet people's medium to long term return expectations. Fundamentally, we believe in active asset allocation in both active and passive investments (where we were one of the first to offer actively managed passive portfolios). We build global portfolios based on that allocation, and include alternative assets where appropriate to manage the risk reward trade off. Active currency management is also at the core of what we do.

7IM provides investment services to professional wealth managers, planners, advisers and private investors. These include: Discretionary investment management, a range of multi-asset portfolios, an investment and open architecture trading platform and a fantastic app, 7IMagine, which brings client portfolios to life.

Multigenerational investing

We do our best to pass on economies of scale, reducing fees so more investors within a family save with us. Grandparents, through to parents and their children can invest as individuals with one charging structure – whether they live under the same roof or not.

A story of continuous innovation.
In 2013, we launched 7IMagine, an app allowing investors and advisers to keep up to date with their portfolio. The brainchild of some clients – professional 'gamers' uninspired by their paper statements – 7IMagine was enriched in February 2016, with My Future. Again using gaming technology, My Future

allows advisers and investors to capture details about family or individual finances, including any number of streams of income, properties, other assets and expenses, to help identify how sustainable their finances are and if / when their retirement income will run out.

Our funds

- Our **AAP fund range (Asset Allocated Passive)** is populated largely with passive structures to keep costs to a minimum. Asset allocation is actively managed to help exploit opportunities and reduce risk across the spectrum: **7IM AAP Adventurous, 7IM AAP Moderately Adventurous, 7IM AAP Balanced, 7IM AAP Moderately Cautious, 7IM Cautious and 7IM AAP Income**. Some of these risk profiles have an offshore version of the fund.
- Our **Multi-Manager fund range** invests in a range of active and passive vehicles. Costs still matter, but if we think an actively managed fund can outperform a passive alternative we have the freedom to choose it. Asset allocation is actively managed. Again, there are different funds for different profiles: **7IM Adventurous**, **7IM Moderately Adventurous**, **7IM Balanced** and **7IM Moderately Cautious**. Again, some of these risk profiles have an offshore version of the fund.
- We also have a selection of funds designed to meet specific needs, such as the **7IM Personal Injury Fund**, the **7IM Real Return Fund** or the SRI focussed **7IM Sustainable Balance Fund**.
- We also have a range of ‘smart passive’ funds known as the equity value funds. The range includes: the **7IM UK Equity Value Fund**, the **7IM US Equity Value Fund**, the **7IM European (ex. UK) Equity Value Fund** or the **7IM Emerging Markets Equity Value Fund**. These are entirely systematically managed based solely on company fundamentals, the aim being to outperform the relevant passive market cap-weighted alternative by selecting profitable, high-quality, cash-flow generating companies that trade at a discount to their intrinsic value.

Our Model Portfolios

The 7IM Model Portfolios are a range of risk rated portfolios and are available within our discretionary investment services and standalone on the 7IM platform and other platforms. The Models use the same investment process and asset allocation as our funds. Like the Asset Allocated Passive (AAP) funds, the entire asset allocation is fulfilled with ‘Smart Passive’ market cap weighted passive instruments (for example UK and US equities) which track those markets and systematic instruments. 7IM undertake the due diligence on the passive securities (such as counterparty risk and concentration). Our range of Model Portfolios are available across the risk profiles: **7IM Adventurous Model Portfolio, 7IM Moderately Adventurous Model Portfolio, 7IM Balanced Model Portfolio, 7IM Moderately Cautious Model Portfolio, 7IM Cautious Model Portfolio and 7IM Income Model Portfolio**.

The 7IM funds and Model Portfolios are available through the 7IM Discretionary, Managed Investment, Platform, and Self Invest services, as well as on other platforms.

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